File

dunhill international, inc.
annual report/1967

financial highlights*

	1967	1966
Net sales	$192,437,576	179,516,908
Depreciation and amortization	4,583,420	4,021,878
Earnings before special items	11,693,358	9,160,661
Net earnings	10,504,362	9,060,534
Working capital	66,358,143	57,577,359
Additions to property, plant and equipment	5,850,829	10,148,747
Long-term debt	12,588,136	11,439,635
Shareholders' equity	100,340,203	94,059,555
Number of shareholders	4,545	4,546
Number of employees	9,321	8,944
Per share:**		
Net earnings	$ 1.07	.93
Cash flow	1.68	1.35
Dividends declared:***		
Preferred	.025	—
Common	.45	.40
Shareholders' equity	10.26	9.60
Percentage of net sales:		
Gross profit	*30.5%*	*29.4%*
Operating income	*11.9%*	*10.4%*
Earnings before Federal and foreign income taxes and special items	*11.9%*	*10.7%*
Earnings before special items	*6.1%*	*5.1%*
Net earnings	*5.5%*	*5.0%*

* Determined under the pooling of interests concept as though Dunhill International, Inc. and AP Parts Corporation had been combined for both years.

** Based on average number of shares outstanding during the years, after providing for conversion of preferred shares.

*** Represents dividends declared on shares of surviving corporation.

about the merger

At special meetings held August 29, 1967, the shareholders of Dunhill International, Inc. and AP Parts Corporation voted to merge the two companies. The merger became effective October 31, with Dunhill being the surviving legal entity.

As a result, Dunhill International, Inc. now markets leading product lines in three separate major consumer goods industries: (1) Automotive Parts, (2) Infants' and Children's Products, (3) Sports and Leisure Equipment.

about this report

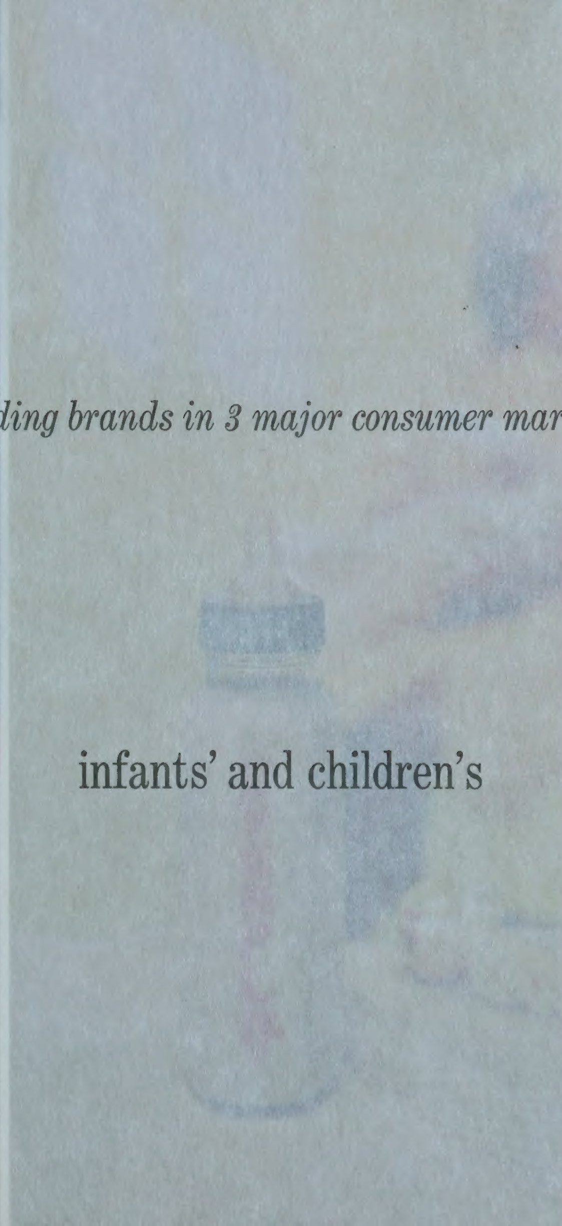
To present the clearest understanding of our company as it exists today, the operating summary of each major product group is reported separately. For the same reason, the financial reports and related graphs are presented as if Dunhill and AP had been merged for each of the full years shown.

notice of annual meeting

The annual meeting of shareholders will be held on Tuesday, April 23, 1968 at ten o'clock in the morning, Eastern Standard Time, at the Toledo Club, 14th Street and Madison Avenue, Toledo, Ohio.

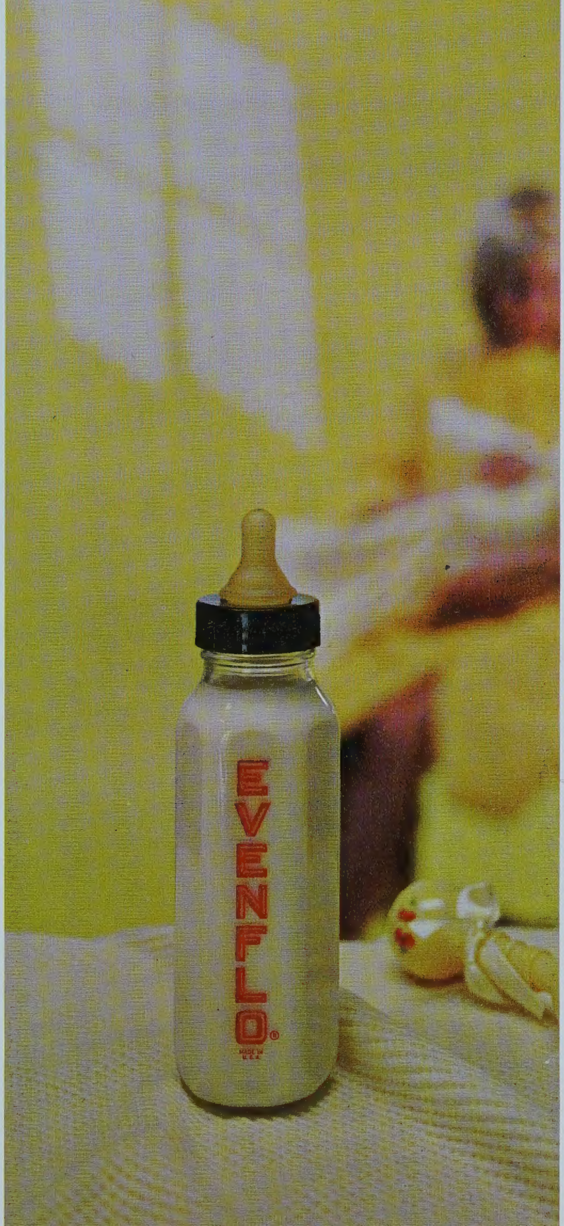
Leading brands in 3 major consumer markets:

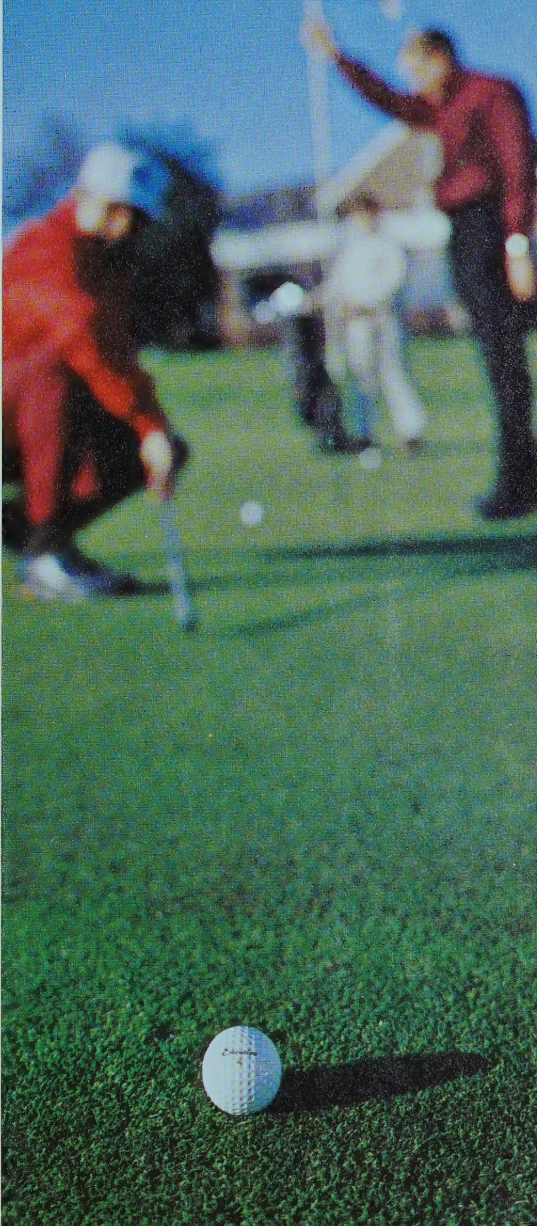
automotive parts



infants' and children's

sports and leisure


EVENFLO®



Paul Putman
Chairman of the Board

P. M. Grieve
President

to our shareholders:

This is the first annual report of Dunhill International, Inc. following its merger with AP Parts Corporation. Although the merger did not become effective until October 31, 1967, this report describes our current operations, financial performance, and major accomplishments as though Dunhill and AP had been merged for the entire year ended December 31, 1967.

On this basis, the combined operations of the new Dunhill International, Inc. for the year 1967 produced net sales of $192,438,000, a 7.2% increase over the sales of the equivalent operations in 1966. Net earnings rose to $10,504,000 or $1.07 per share (assuming complete conversion of the preferred) from the 1966 level of $9,061,000 or $.93 per share. During the year your company either accomplished or undertook the following significant actions:

All assets pertaining to the Alfred Dunhill operation were sold for cash at a nominal gain. This operation, consisting of the five well-known Dunhill retail specialty shops and a mail order division, had not been profitable and did not fit into your company's long-range plans.

In anticipation of tightening availability of money to corporate borrowers, and to provide the resources for our planned expansion programs, a standby credit of $25,000,000 was arranged with our major commercial banks.

The annual rate of dividend payments was increased from $.40 to $.50 per share. It is our intention to maintain this dividend rate consistent, of course, with prudent financial management.

Following agreement between the company and the employees of the Oil City Glass Company Division regarding conditions of employment, a $1,000,000 equipment renovation project was begun. This project will increase the quality and efficiency of the glass making, forming and packaging facilities to a point where this division should begin to contribute a reasonable profit by the second quarter of 1968. The facility has been operating at an annual loss for the last three years.

The master automotive parts warehouse of Goerlich's, Inc. in Dowagiac, Michigan, which had become costly and inefficient, was closed. The inventories and services this facility provided were disbursed to Goerlich's six regional distribution centers where it is planned that better service can be provided its customers.

A tender offer for the minority shares of common stock outstanding in A. G. Spalding & Bros. Inc. was begun in December of 1967, and concluded in February of 1968. A total of 69,158 shares was purchased in this tender at a purchase price of $2,247,635, increasing your company's ownership in Spalding from 72% to 80%.

An agreement was reached for the sale of the New York Dock Railway and the real estate related to its operations, owned by another Dunhill subsidiary. The transfer of assets is subject to certain contingencies, the most significant of which is the approval of the Public Service Commission of New York. The sale price is $1,188,996 below the net investment by Dunhill in these assets, and the loss has been reflected in Dunhill's 1967 reported net income. This action ends a long-standing, unprofitable investment in an industry in which Dunhill has no desire to remain.

In reviewing the achievements of 1967, and the plans which have been developed to continue our expansion and diversification, it is difficult not to be optimistic about our future. We enter 1968 a significantly larger, more diversified, and financially stronger company than at the beginning of 1967. We are strongly entrenched in three growing consumer product industries, and our continuing acquisition program is keyed to reinforce and increase this position.

The merger has created many opportunities for growth and for improved earnings through operating efficiencies. We have developed an aggressive, highly-motivated management team which is totally committed to capitalize on these strengths and opportunities.

Paul Putman
Chairman of the Board

P. M. Grieve
President

financial section
sports and leisure equipment group
infants' and children's group
automotive parts group

operations summary

automotive parts group

This operating group is composed of the subsidiaries and divisions of the former AP Parts Corporation. Major products are exhaust systems, shock absorbers, and piston rings for the automotive original equipment and replacement markets. Other products include rotary seals, valve seats, transmission rings, and specialized castings for the automotive, small engine, home appliance, and related industries.

general summary

This group's most significant progress in 1967 was an 18% increase in replacement sales of exhaust systems and shock absorbers. While smaller in dollar volume, sales of replacement piston rings also increased.

In other sales areas, decreased 1967 car production did reduce shipments of some original equipment parts to the car makers. Moreover, a slow-up in the tracked-vehicle industry (supplied by our Rotary Seal Division) and a strike at our Wausau Motor Parts plant took their toll of overall group performance.

These set-backs, however, were offset by several important new efficiencies and product developments.

new developments

Benefits from our $7,000,000 capital investment program (completed early in 1967) are reflected in this group's earning performance. Many of the resultant improvements in manufacturing and distribution techniques were felt almost immediately in increased operating efficiencies and cost reductions. For example, completion of our Toledo distribution center and computerized inventory controls for our regional warehouses have materially improved our handling efficiency and field service and delivery levels.

Also, stepped-up research and development programs have won important new accounts in each of our major markets. Beginning with the 1968 model cars, for example, our advanced radiometric testing and expanded production facilities for the new molybdenum-filled piston rings have helped our Muskegon Piston Ring subsidiary increase its dollar penetration of the original equipment market by approximately 15%.

group performance

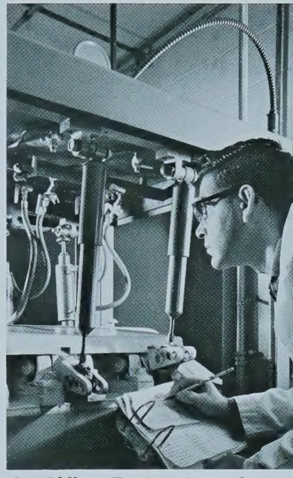
Total sales for the automotive group were $104,508,796 as compared to $91,733,445 in 1966. Earnings, bolstered by increased efficiency, continuing cost reduction programs, and higher sales, increased 40%.

outlook

Accurate short term projections are difficult due to rising costs of raw materials and equipment, and several pending new labor contracts. However, with new price schedules for our products becoming effective early in 1968, an anticipated increase in new car production levels, and a growing number of cars in the two to eight year old prime replacement parts market, we expect the automotive parts group to continue its growth and remain a major contributor to overall corporate earnings.

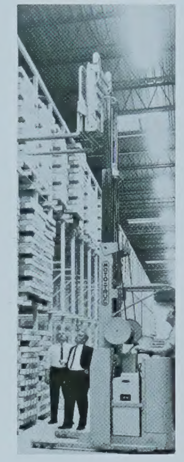
Long range prospects are excellent, with industry experts still predicting routine 10 million new car production years for the early 1970's, a 20% increase in total registrations within 5 years, and continued national emphasis on car safety.

Through accelerated marketing programs and the introduction of additional new products, we anticipate our own growth rate to continue to be greater than the industry as a whole.



Our Oldberg Engineering and Research Center is responsible for maintaining the high quality of replacement shock absorbers that are winning an ever increasing share of this giant market.

One of the company's 26 distribution centers in the U.S. and Canada that supplies the over 10,000 wholesalers who now sell our replacement parts.



Service stations, garages and car dealers perform an estimated 75% of all replacement exhaust system work. 80,000 of these dealers are registered as AP muffler specialists.

Muskegon's Sparta Foundry Division, which supplies the rough castings for Muskegon and Wausau piston rings, is believed to be the largest piston ring foundry in the world.

(Left to right) G. W. Lundeen, president, Muskegon Piston Ring Company; C. W. Kitzinger, president Oldberg Manufacturing Company; H. C. Stivers, Vice-President of Marketing, AP Parts Corporation; John Goerlich, founder of AP Parts Corporation and president, Merit Industries, Inc.; and T. O. Ulmer, president, Goerlich's Inc.

C. R. Porthouse, President of Pyramid International, Inc. (seated) and (left to right) J. R. Lawrence, Secretary-Treasurer of Pyramid International, Inc.; J. J. Shomock, Vice-President—Manufacturing of Evenflo Products; and B. R. Frost, Vice-President—Sales of Evenflo Products inspect point-of-purchase packaging.

operations summary

infants' and children's group

This operating group is composed of the divisions and subsidiaries of Pyramid International, Inc., which group comprised the former Dunhill International. Major products are famous brand "Evenflo" infant feeding equipment; "Infanseat" children's seating products; and children's books and games published by Pyramid subsidiary, Platt & Munk Co., Inc. In addition to supplying infant feeding equipment components, Pyramid's manufacturing divisions produce a number of related items, including glass and plastic containers for the food and beverage industries; and, most recently, custom molded plastic packaging for industrial and consumer products.

general summary

During 1967, the Evenflo Products division continued to maintain its deep penetration of the infant feeding market and despite declining birth rates, sales and earnings increased. The increases were due in part to a long overdue price increase (the first in thirty years) and to the success of a number of new products, particularly in the plastic and new disposable feeding units.

Platt & Munk's expanding line of books and games for children and young adults has met with excellent market acceptance, as has Infanseat's new Tip 'N Rok chair for toddlers.

new developments

To increase the profitability of our glass container plant in Oil City, Pennsylvania, your management approved a million dollar capital investment in new, more automated equipment which became operative in February, 1968. It replaces obsolete machinery, the high operating costs of which caused this plant to operate at a significant loss in 1966 and 1967.

sports and leisure equipment group
infants' and children's group

Markets for this division's wide variety of glass products remain strong and we expect it to contribute to overall group profits in 1968.

We are also pleased to report increased profitability from our plastic products divisions, Crator Manufacturing Company and Harcort Manufacturing Company. This has been due primarily to increased production volume from higher sales of plastic products for both the infant feeding and consumer packaging industries.

group performance

Total sales for this group were $22,145,486 as compared to $20,180,205 for 1966, for an increase of 10%. Earnings for the same period increased 20%.

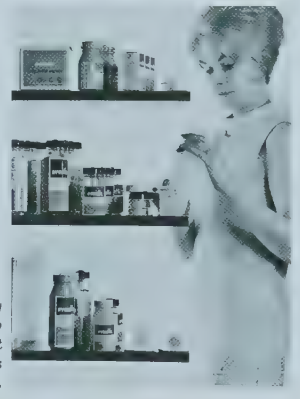
outlook

As with any consumer-oriented company, our 1968 performance will reflect general economic trends. However, we are optimistic about increased sales and earnings for the new year, despite certain projected increases in manufacturing and distribution costs. Our optimism is based on a long overdue price increase; programs recently accomplished (such as the Oil City plant improvement) or currently underway to increase operating efficiency and profitability; and the important fact that we have not only increased existing market penetration with new products, we have broadened our market appeal through other new products for wider age groups. Significantly, many of the related start-up costs were absorbed in 1967 . . . and the result should be increased profitability in 1968.

Long-range predictions are even more optimistic. The number of live births (which is one of our basic business barometers) is expected to climb from today's approximately 3.5 million to 4 million by 1975. Within this market, our present products are well established and new opportunities arise almost daily. Our plants are better equipped than at any time in our history and our people are skilled and energetic. We are, therefore, most enthusiastic about future growth.

Infanseat's new Tip 'N Rok chair for one to seven year olds for broadened market appeal.

Platt & Munk books and things-to-do delight boys and girls of all ages.

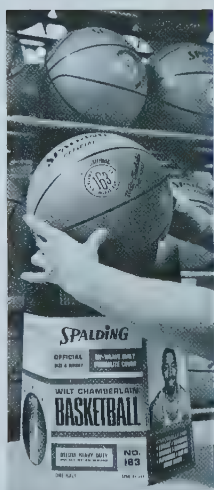


With four out of five young mothers now using Evenflo products, no baby department is complete without its Evenflo display.

These containers, maufactured at our Harcort Manufacturing Company, are components for the automatic electric plastic sterilizers—one of Evenflo's ever-expanding number of baby products.

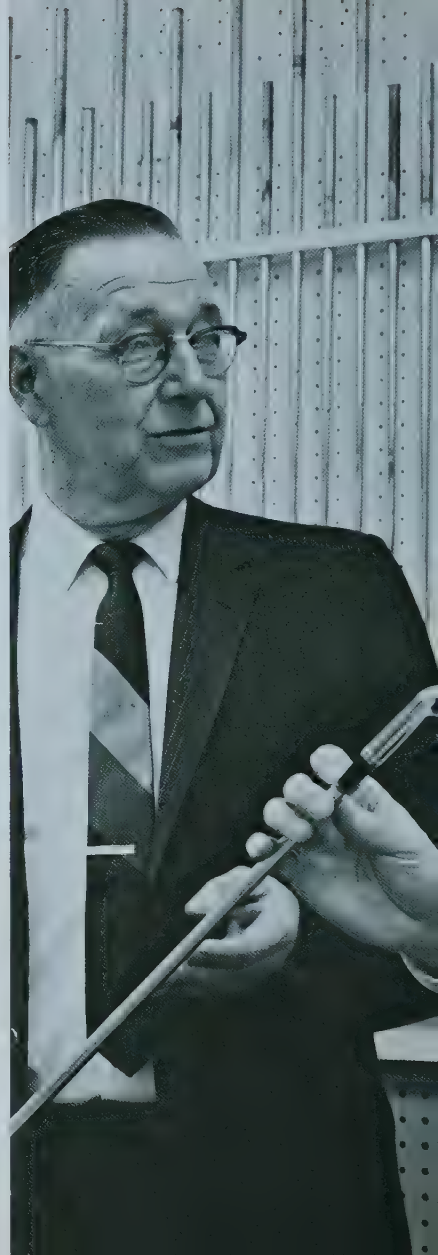
A product everyone recognizes from our Toy Tinkers Division, Evanston, Illinois.

Golf bag designer selects material for 1968 line. The bags are produced at our Ava, Missouri plant.



Retail Sales Division's new point-of-purchase packaging for Spalding "Official" balls.

The "Professional Edge" of Spalding sports equipment is aptly demonstrated by professional tennis consultant, Pancho Gonzales (left) and professional golf consultant, John Pott.



Spalding president, Ed Parker (left) inspects new aluminum shaft golf club with Jim Long, vice-president, product design.

operations summary

sports and leisure equipment group

This group encompasses the worldwide activities of A. G. Spalding & Bros. Inc. Its operations include the manufacture and distribution of a broad line of Spalding sporting goods and leisure equipment. Major American markets are sold through our Professsional Golf Division, General Retail Division, and National Stamp, Premium and Incentive Division. Similar sales organizations exist in Europe, Africa, Australia and Japan.

Tinkertoys and other wood and plastic educational building sets are products of Spalding's Toy Tinkers Division.

general summary

Introduction of several new products and accelerated sales and advertising campaigns, continuing to build on the professional quality of Spalding's expanding lines, gave this group a 3% 1967 sales increase over 1966.

Earnings, affected by new product development costs, start-up costs for several expanded facilities, and significant overseas losses, were slightly lower than 1966's record high level.

new developments

Major new products were introduced in 1967, including two important "firsts." One was the Spalding EXECUTIVE® golf balls introduced in March. The other was the aluminum-shaft EXECUTIVE® golf clubs announced in September. Both received immediate and outstanding market acceptance and promise to be major factors in our future sales.

To improve operating efficiency and customer service, we opened a new, large Miami warehouse in September, and in December, a major new facility in Chicopee which consolidates our New England district offices with expanded shipping facilities.

Also during 1967, limited but expanding baseball production was started in the Ava, Missouri plant.

group performance

Sales for Spalding's fiscal year ending October 31, 1967 totaled $58,510,234 compared to $56,872,200 in 1966. Earnings for 1967 were $2,305,222 compared to $2,458,549 in 1966.

outlook

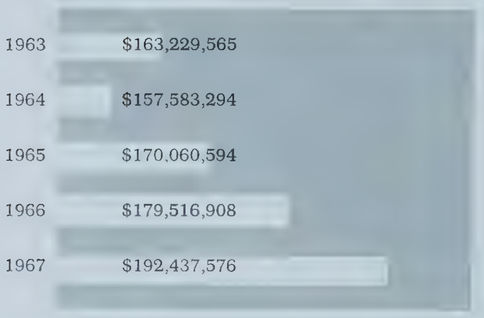
The outlook for 1968 is good. Our markets remain strong and the demand for our products continues to gain momentum throughout the world.

We are enthusiastic about important, but highly classified, projects expected to be announced in 1968. Combined with continued and growing market acceptance for our new EXECUTIVE® golf balls and aluminum shafted clubs, these developments are expected to increase our 1968 market position significantly. Markets for leisure products continue strong.

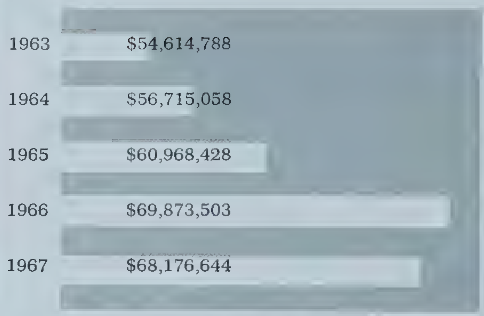
To meet the present and anticipated demand for our products, improved or expanded manufacturing equipment is scheduled for all divisions. Immediate efforts are being directed toward expansion of our Chicopee inflated rubber ball manufacturing unit and the expansion to the United Kingdom, Australia, and Canada of our new golf ball manufacturing process.

We believe that the combination of new products, improved manufacturing capabilities and increased promotion of our "professional" lines, will improve sales and earnings in 1968 and beyond.

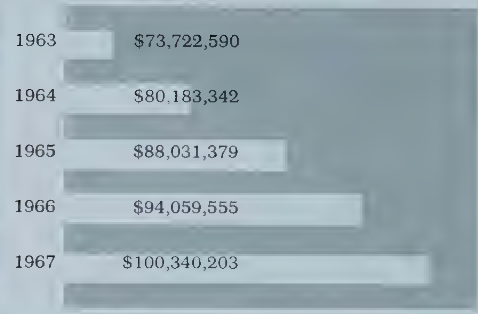
five year financial summary



net sales



property, plant and equipment (cost)



shareholders' equity

net earnings

earnings per share

common dividends declared per share

dunhill international, inc.

statement of consolidated earnings and retained earnings

Year ended December 31, 1967—with comparative figures for 1966

	1967	1966
Net sales	$192,437,576	$179,516,908
Cost of sales	133,810,371	126,721,775
Gross profit	58,627,205	52,795,133
Selling, general and administrative expenses	35,708,239	34,123,853
Operating income	22,918,966	18,671,280
Net other income	2,274	494,933
Earnings before Federal and foreign income taxes and special items	22,921,240	19,166,213
Federal and foreign income taxes	10,600,000	9,290,897
Earnings before minority interests and special items	12,321,240	9,875,316
Minority interests in earnings of subsidiaries	627,882	714,655
Earnings before special items	11,693,358	9,160,661
Special items:		
Loss on sale of subsidiaries (note 10)	1,188,996	–
Costs in connection with unconsummated sale of corporate assets, less related income tax of $92,000	–	100,127
Net earnings	10,504,362	9,060,534
Retained earnings at beginning of year	68,674,044	62,905,392
Adjustment of additional investment in majority-owned subsidiary to underlying net asset value	-	52,387
	79,178,406	72,018,313
Cash dividends declared on:		
Convertible preferred stock–$.02½ per share	43,624	–
Common stock–$.45 per share ($.40 per share in 1966)	2,185,707	1,466,822
Capital shares of merged companies prior to merger	1,709,499	1,877,447
	3,938,830	3,344,269
Retained earnings at end of year	$ 75,239,576	$ 68,674,044
Earnings per share of common stock assuming conversion of preferred stock (note 5):		
Earnings before special items	$ 1.19	$ .94
Special items	.12	.01
Net earnings	$ 1.07	$ .93

See accompanying notes to consolidated financial statements.

dunhill international, inc.

consolidated balance sheet

December 31, 1967—with comparative figures for 1966

assets

	1967	1966
Current assets:		
Cash	$ 10,706,767	$ 7,174,142
Marketable securities, at cost (approximates market)	2,422,590	821,898
Receivables, less allowances of $1,505,695 in 1967 and $1,167,758 in 1966:		
Trade	29,791,187	27,432,879
Other	1,396,776	1,054,852
Net receivables	31,187,963	28,487,731
Inventories, at lower of cost (first-in, first-out) or market:		
Raw materials	8,531,048	9,600,195
Work in process	8,229,724	7,082,978
Finished goods	31,182,224	31,731,898
Total inventories	47,942,996	48,415,071
Prepaid expenses	2,194,950	2,417,952
Total current assets	94,455,266	87,316,794
Investments, at cost:		
Affiliated companies (note 2)	12,917,758	12,547,938
Other corporate shares	50,000	640,199
Total investments	12,967,758	13,188,137
Property, plant and equipment, at cost:		
Land and land improvements	2,525,395	2,696,709
Buildings and improvements	23,027,290	22,624,897
Machinery and equipment	41,349,098	42,358,912
Construction in progress	1,274,861	2,192,985
	68,176,644	69,873,503
Less accumulated depreciation	33,042,176	33,386,806
Net property, plant and equipment	35,134,468	36,486,697
Other assets	5,898,332	5,625,131
	$ 148,455,824	$ 142,616,759

See accompanying notes to consolidated financial statements.

liabilities and shareholders' equity

	1967	1966
Current liabilities:		
Unsecured bank loans	$ 2,041,982	$ 6,599,963
Current maturities of long-term debt (note 3)	4,716,699	2,774,170
Accounts payable	7,976,001	8,693,518
Dividends payable	993,912	891,896
Accrued expenses	7,206,792	6,306,851
Federal and foreign income taxes	5,161,737	4,473,037
Total current liabilities	28,097,123	29,739,435
Deferred Federal income taxes	350,000	125,000
Long-term debt (note 3)	12,588,136	11,439,635
Minority interests in subsidiaries	7,080,362	7,253,134
Shareholders' equity (notes 1, 3, 5 and 6):		
Convertible preferred stock, par value $1 per share. Authorized and issued 1,744,961 shares in 1967	1,744,961	1,744,961
Common stock, par value $1 per share. Authorized 12,000,000 shares; issued 8,056,825 shares in 1967	8,056,825	8,055,955
Additional paid-in capital	15,650,094	15,643,210
Retained earnings	75,239,576	68,674,044
	100,691,456	94,118,170
Less cost of 24,970 shares of common stock in treasury (4,070 shares in 1966)	351,253	58,615
Total shareholders' equity	100,340,203	94,059,555
Commitments and contingent liabilities (notes 7, 8 and 9)		
	$ 148,455,824	$ 142,616,759

dunhill international, inc.

statement of consolidated source and application of funds

Year ended December 31, 1967—with comparative figures for 1966

	1967	1966
Funds provided:		
Net earnings	$ 10,504,362	$ 9,060,534
Add charges against earnings not requiring funds:		
Depreciation and amortization	4,583,420	4,021,878
Provision for deferred Federal income taxes	225,000	125,000
Loss on sale of subsidiaries	1,188,996	–
Funds derived from operations	16,501,778	13,207,412
Issuance of shares of common stock	7,754	263,900
Increase (decrease) in long-term debt	1,148,501	(2,454,170)
Decrease in investment in corporate securities	590,199	9,978
Sale of subsidiaries	652,903	–
Book value of property, plant and equipment disposals	1,099,932	323,829
Other	–	52,387
	20,001,067	11,403,336
Funds applied:		
Additions to property, plant and equipment	5,850,829	10,148,747
Increase in other assets, excluding depreciation and amortization	595,394	562,622
Decrease (increase) in minority interests in subsidiaries	172,772	(74,821)
Purchase of additional shares of affiliated company	369,820	105,932
Purchase of treasury shares	292,638	–
Cash dividends	3,938,830	3,344,269
Other	–	4,375
	11,220,283	14,091,124
Increase (decrease) in working capital	$ 8,780,784	$ (2,687,788)

See accompanying notes to consolidated financial statements.

notes to consolidated financial statements

December 31, 1967

1 *principles of consolidation and related matters*

The consolidated financial statements include the accounts of all subsidiaries after elimination of significant intercompany items. Accounts of foreign subsidiaries have been converted at appropriate rates of exchange. Consolidated earnings include the operations of one subsidiary, formerly Alfred Dunhill of London, Inc., which sold substantially all of its net assets and was liquidated in 1967 and also include the operations of two subsidiaries which were sold on December 29, 1967 (see note 10).

On October 31, 1967 AP Parts Corporation was merged into Dunhill International, Inc. in a transaction treated for accounting purposes as a pooling of interests. Accordingly, the accompanying consolidated statements present financial position and results of operations as though the companies had been combined for both years.

notes to consolidated financial statements (continued)

The Company's Articles of Incorporation were amended to increase the authorized shares to 13,744,961, of which 12,000,000 are shares of common stock, par value $1, and 1,744,961 are shares of convertible preferred stock, par value $1. As of the effective date of the merger, each outstanding common share of AP Parts Corporation was converted into 1.74 shares of common stock of the surviving corporation and each Class B common share of AP Parts Corporation was converted into 1.74 shares of convertible preferred stock of the surviving corporation. The 200 common shares of AP Parts Corporation held in its treasury were cancelled.

The effect of the consummation of the merger was to increase the stated value of the Company's outstanding capital shares by $6,130,397, of which $1,744,961 represents the par value of the 1,744,961 shares of convertible preferred stock issued in exchange for the 1,002,851 outstanding Class B common shares of AP Parts Corporation, and $4,385,436 represents the par value of the 4,385,436 shares of common stock issued in exchange for the 2,520,365 outstanding common shares of AP Parts Corporation.

Upon merger the additional paid-in capital of the surviving corporation was increased by $2,911,647, of which $2,677,647 represents the excess of stated value of the capital shares of AP Parts Corporation converted over the stated value of the capital shares issued by Dunhill International, Inc. upon conversion, and $234,000 represents the additional paid-in capital of AP Parts Corporation before merger.

The consolidated retained earnings of AP Parts Corporation, after a minor adjustment resulting from the elimination of its treasury shares, have been combined with the retained earnings of the surviving corporation in the accompanying financial statements.

2 *investment in affiliated companies*

At December 31, 1967 the Company owned approximately 54% of the outstanding common shares (46% of the voting stock) of the American Bank Note Company having a cost of $12,802,609 and representing an equity in the underlying net assets of approximately $13,400,000. Based on the quoted market price as of the close of business on December 31, 1967, the market value was approximately $16,750,000. A wholly-owned subsidiary has an investment of $115,149 (approximately book value) in 50% of the outstanding shares of a foreign company.

3 *long-term debt*

The long-term debt at December 31, 1967 was as follows:

	Due Within One Year	Due After One Year
Unsecured obligations:		
Notes payable to banks:		
4¾%, due in 1968	$2,375,000	–
4¾%, due in 1969	900,000	450,000
5½%, due in 1969	150,000	150,000
1% over bank rate, due in 1969	240,000	1,320,000
4¾%, due in 1970	150,000	200,000
Notes payable to insurance companies:		
6.40%, due in 1982	670,000	9,330,000
6%, due in 1971	100,000	250,000
Installment contracts:		
5%, due in 1972	100,240	400,960
Secured obligations:		
Mortgage notes:		
4¾%, due in 1984	16,600	251,767
2%, due in 1984	11,559	205,509
Non-interest bearing, due in 1970	–	20,000
6%, due in 1971	3,300	9,900
	$4,716,699	12,588,136

Covenants in agreements relating to long-term debt require maintenance of minimum working capital and restrict dividend declarations, purchase or redemption of Company stock, certain borrowings, investments, loans, mergers, acquisitions, leases, etc. Payments for dividends and acquisition of Company stock are limited to $10,000,000 plus consolidated net earnings after December 31, 1966, and the amount unrestricted as to such payments was $19,174,188 at December 31, 1967.

Included above are 6.40% notes payable by A. G. Spalding & Bros. Inc., a majority-owned subsidiary, which were issued under an agreement containing, among other things, restrictions and covenants relative to the maintenance of working capital and net tangible assets, short-term borrowing, execution of leases, and payments for cash dividends or acquisition of its stock. Such payments may be made after December 31, 1967 to the extent of 50% of consolidated net earnings of Spalding and its U. S. and Canadian subsidiaries since November 1, 1966, and the amount unrestricted as to such payments was approximately $1,400,000.

4 *revolving credit agreement*

On November 1, 1967 the Company entered into a revolving credit agreement with six banks which are committed to lend an aggregate of $25,000,000 from the date of the agreement through the termination date, December 31, 1969. Borrowings under the agreement will be evidenced by promissory notes payable in ten equal semi-annual installments beginning June 30, 1970. At December 31, 1967 there were no borrowings under this agreement. Until the termination date of the revolving credit agreement, the Company agrees to pay a fee of ¼ of 1% per annum on the unused portion of the commitment.

notes to consolidated financial statements (continued)

5 *capital shares*

The common stock and the convertible preferred stock have equal rights and privileges except that a convertible preferred shareholder is entitled to receive, when and as declared, dividends (which shall be cumulative) at the rate of 2½¢ per share quarterly, before dividends are declared on common stock. Any holder of convertible preferred stock shall have the right, on or after December 31, 1970, to convert each of such shares into one share of common stock after any required adjustment for stock dividends and subdivisions of common stock.

6 *stock option plan*

The Company has a qualified stock option plan under which options to purchase common stock may be granted to key management employees of the corporation or its subsidiaries. The option price per share shall not be less than fair market value of the common stock at the time the option is granted and 174,000 is the maximum number of shares which may be sold under the plan. Options exercisable within five years have been granted to nine employees for the purchase of an aggregate of 170,520 shares, of which options for 127,020 shares were granted in 1966 at a price of $8.91 per share and an option for 43,500 shares was granted in 1967 at a price of $9.63 per share. An option for 870 shares at $8.91 per share was exercised in 1967.

7 *pension plans*

The Company and certain of its subsidiaries have several pension plans covering substantially all hourly-paid and certain salaried employees. Company policy is to fund pension costs accrued, and total pension expense was $1,337,707 in 1967 and $1,367,359 in 1966, including amortization of prior service costs on the basis of amortization periods ranging from 10 years to 40 years.

8 *commitments*

The Company and its subsidiaries lease certain manufacturing, warehousing and office facilities and office equipment under various lease agreements, some having renewal options, expiring periodically through 1983 and requiring annual rental payments of approximately $920,000 in 1968 plus certain related taxes, insurance and maintenance charges. Of this annual rental, $500,000 is applicable to leases having expiration dates within the next five years. Total rental obligations payable over the present terms approximate $5,780,000.

The Company has made a tender offer, expiring February 26, 1968, to acquire up to 218,812 shares (representing the minority interests at December 31, 1967) of the common stock of A. G. Spalding & Bros. Inc. at a price of $32.50 per share net to selling shareholders.

9 *contingent liabilities*

The Company and its subsidiaries have various claims and lawsuits pending and threatened against them and have made certain guarantees which arose in the ordinary course of business. It is not possible to estimate these liabilities; however, in the opinion of management and counsel, any ultimate liability in such matters will have no material effect on the financial condition of the Company.

10 *sale of subsidiaries*

The investments in NYD Properties, Inc., formerly Dunhill International Corporation, and New York Dock Railway were sold on December 29, 1967 subject to various conditions including obtaining approvals or waivers from any Federal, state or municipal authority having jurisdiction over New York Dock Railway or any of the parties to the agreement of sale. The sales terms require payment of $500,000 in cash upon closing and delivery of a note for $393,443 dated December 31, 1967 payable, beginning December 31, 1973, in ten equal annual installments of $60,000 including interest at 5%. The total sales price of $893,443 has been reflected in other assets at December 31, 1967 and the loss of $1,188,996 from the sales has been shown as a special item in the 1967 statement of consolidated earnings.

accountants' report

The Board of Directors and Shareholders
Dunhill International, Inc.:

We have examined the consolidated balance sheet of Dunhill International, Inc. and subsidiaries as of December 31, 1967 and the related statement of earnings and retained earnings and the statement of consolidated source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine financial statements of A. G. Spalding & Bros. Inc., a consolidated subsidiary, which statements were examined by other independent public accountants whose report has been furnished to us.

In our opinion, based on our examination and the aforementioned report of other independent public accountants, the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings present fairly the financial position of Dunhill International, Inc. and subsidiaries at December 31, 1967, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of consolidated source and application of funds for the year ended December 31, 1967 presents fairly the information shown thereon.

Peat, Marwick, Mitchell & Co.

Toledo, Ohio
February 6, 1968

notes to consolidated financial statements (continued)

[illegible]

8 commitments

The Company and its subsidiaries lease certain manufacturing, warehousing and office facilities and office equipment under various lease agreements, some having renewal options, expiring periodically through [illegible] and requiring annual rental payments of approximately [illegible] in 1968 plus certain related taxes, insurance and maintenance charges. Of this annual rental, [illegible] is applicable to leases having expiration dates within the next five years. Total rental obligations payable over the present terms approximate [illegible].

The Company has made a tender offer, expiring February [illegible], 1968, to acquire up to [illegible] shares (representing the minority interests at December 31, 1967) of the common stock of A. G. Spalding & Bros. Inc. at a price of [illegible] per share net to selling shareholders.

[illegible]

accountants' report

The Board of Directors and Shareholders
Dunhill International, Inc.:

We have examined the consolidated balance sheet of Dunhill International, Inc. and subsidiaries as of December 31, 1967 and the related statement of earnings and retained earnings and the statement of consolidated source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine financial statements of A. G. Spalding & Bros. Inc., a consolidated subsidiary, which statements were examined by other independent public accountants whose report has been furnished to us.

In our opinion, based on our examination and the aforementioned report of other independent public accountants, the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings present fairly the financial position of Dunhill International, Inc. and subsidiaries at December 31, 1967, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of consolidated source and application of funds for the year ended December 31, 1967 presents fairly the information shown thereon.

Peat, Marwick, Mitchell & Co.

Toledo, Ohio
February 6, 1968

dunhill international, inc.

board of directors

Lore W. Alford
Reuben W. Askanase
Aaron J. Farfel
John Goerlich
P. M. Grieve
Cyril R. Porthouse
Paul Putman
Morris Shilensky
Stephen Stranahan

officers

Paul Putman
Chairman of the Board
P. M. Grieve
President
Cyril R. Porthouse
Vice President
R. R. Hessler
Vice President - Finance and Treasurer
C. V. Beck, Jr.
Secretary and General Counsel
John Lawrence
Assistant Secretary and Assistant Treasurer
Paul Garvin
Assistant Secretary and Assistant Treasurer

transfer agents

The Ohio Citizens Trust Company / Toledo, Ohio
Bankers Trust Company / New York, New York

registrars

First National Bank of Toledo / Toledo, Ohio
First National City Bank / New York, New York

auditors

Peat, Marwick, Mitchell & Co. / Toledo, Ohio

executive offices

Toledo, Ohio

principal subsidiaries and divisions

automotive parts group

AP Parts Corporation
- AP Sales Division
- AP International Division
- AP Parts of Canada, Ltd.
- AP de Mexico, S.A.
- AP Iberica, S.A.
- Columbus Parts Division
- Merit Industries, Inc.

Goerlich's, Inc.

Muskegon Piston Ring Company
- Muskegon Division
- Rotary Seal Division
- Sparta Foundry Division
- Wausau Motor Parts Division

Oldberg Manufacturing Company
- Dyersburg Division
- Grand Haven Division
- Northern Tube Division
- Toledo Division
- Youngstown Division

infants and children's group

Pyramid International, Inc.
- Archer Service Division
- Crator Manufacturing Division
- Contract Division
- Evenflo Products Division
- Evenflo Mexico, S.A.
- Harcort Manufacturing Division
- Infanseat Company
- Oil City Glass Division
- The Platt & Munk Co., Inc.

sports and leisure equipment group

A. G. Spalding & Bros. Inc.
- A. G. Spalding & Bros. of Canada, Ltd.
- A. G. Spalding & Bros. Limited (United Kingdom)
- A. G. Spalding & Bros. (Australasia) Pty. Ltd.
- Spalding Sales Corporation
- Robert Bryant, Limited (United Kingdom)
- Robert Forgan & Son Limited (United Kingdom)
- Toy Tinkers Division

Leslie Welding Company, Inc.

dunhill international, inc.
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